

Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

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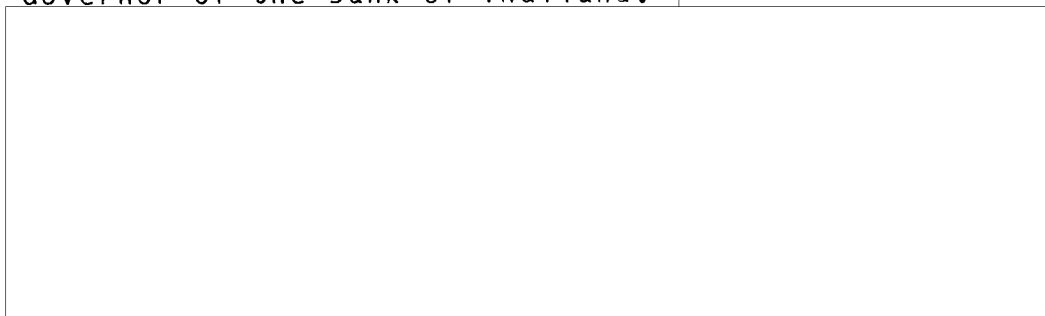
Shake-up at Thailand's Central Bank:  
Will The Economy Suffer? [redacted]

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Summary

After months of intrabureaucratic wrangling over the conduct of Thailand's monetary policy, Finance Minister Sommai Huntrakun last week forced the resignation of Nukun Prachuapmo, the respected Governor of the Bank of Thailand. [redacted]

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Nukun's replacement, Kamchon Sathirakun, may not be able to stand up to Sommai on politically sensitive economic issues. If that is the case, we would look for a weakening of the Bank's apolitical management and potential damage to Thailand's hard-earned international reputation for creditworthiness and sound financial management. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 21 September 1984 was used in its presentation. Comments and queries are welcome and may be directed to Chief, Southeast Asia Division on [redacted]

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Nukun's Role as a Policymaker

In his five years as Governor of the Bank of Thailand, Nukun led the monetary strategy that helped move Thailand into its position as one of the most creditworthy economies among developing nations.\* After posting large balance of payment deficits in the late 1970s, Thailand achieved a \$2.5 million surplus in 1980 followed by surpluses in excess of \$1 million in 1981 and 1982. This impressive performance during Nukun's tenure focused international attention on the Thai economy for the first time. The World Bank cited Thailand as one of the developing world's success stories and praised Bangkok's willingness to make hard economic decisions. [REDACTED]

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In 1983 export earnings fell and imports sharply increased to support a domestic investment boom and the rebuilding of depleted inventories. Nukun adjusted the expansionary policies he had used to stimulate the economy during the global recession in order to scale down bank lending in general and curb imports in particular. The Bank of Thailand raised standard interest rates on loans to commercial banks and introduced a package of credit expansion controls that included an 18-percent annual limit on increases in commercial bank lending. The resulting high interest rates put additional strains on an already tight money market, causing the collapse of several finance companies--while threatening the collapse of many others--and precipitating a record number of small business bankruptcies. [REDACTED]

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Although Sommai disagreed with a number of Nukun's moves, his imposition of credit controls, for example the Finance Minister at first did not intrude in central bank policy.\*\* As the problems within the financial sector increased, however, Sommai began to take action. Last month, in an unprecedented move, the Finance Ministry took over the troubled Asia Trust Bank, which according to press reports, had already been under close central bank supervision because of excessive lending without proper collateral. About two weeks later, the government rescinded the 18-percent ceiling on commercial bank credit expansion. Finally, on 14 September Sommai forced Nukun's resignation. [REDACTED]

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\*A recent international multibank loan of US\$200 million for the Electricity Generating Authority of Thailand received terms among the best obtainable in Asia--only .375 percentage points above the London Interbank Offered Rate. [REDACTED]

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\*\*By law, the Bank of Thailand is under the jurisdiction of the Ministry of Finance. [REDACTED]

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The New Man: Can He Resist Sommai?

Sommai's selection of Kamchon, a Finance Ministry subordinate, to replace Nukun suggests the Minister plans to keep a hand in central bank operations. [REDACTED]

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If that is the case, the bank's willingness to institute politically unpopular policies will be weakened. The Prem government is under pressure because of the country's economic difficulties--the politically powerful General Athit Kamlang-ek has publicly criticized the government's handling of the economy and called into question Prime Minister Prem's ability to maintain Thailand's high reputation in international financial circles. [REDACTED]

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Indicators of Problems in the Economy

Sommai would probably prefer a less restrictive monetary policy in an effort to ease some of the political pressure on the government. Although such policies would not permanently damage the economy, there is a real possibility in the short-run that they could create inflationary pressures that would worsen the balance of payments and accelerate foreign borrowing, which has been rising rapidly in recent years. [REDACTED]

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We believe that several of the following developments would provide advance warning that the monetary policies being pursued under Kamchon were not working, and that Thailand's economy could be headed for trouble:

- Rapid expansion of credit
- Rapid growth of imports.
- A sharp drop in foreign exchange reserves.
- Increased politicization of longer term economic policy.
- Rising interest rates on commercial loans and/or shorter term maturities.
- More government propping up of the private financial sector or more government takeovers of troubled firms.
- Return of a rigid interest rate ceiling, which would reduce the flexibility of the financial system to adjust to changes in credit conditions. [REDACTED]

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SUBJECT: Shake-up at Thailand's Central Bank:  
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